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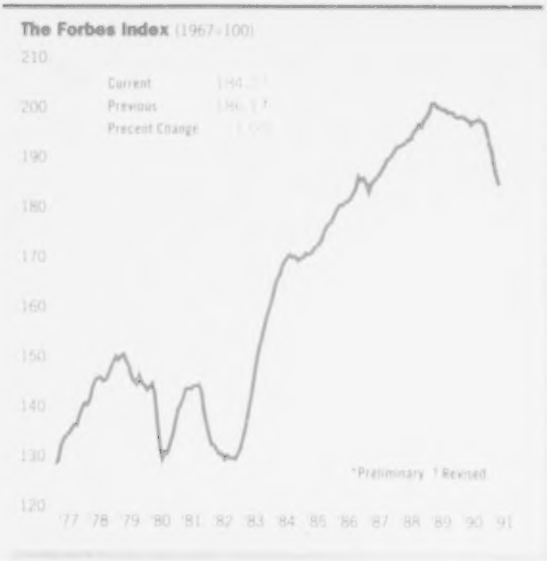
THE FORBES INDEX

BY TIMOTHY DODMAN



The recession may be losing its grip. For the second consecutive month, new housing starts showed a significant increase. Although the March 1991 figure is 32% lower than the March 1990 result, the 74,000 starts in March 1991 is the best this sector has done since last November. (For a look at building stocks, see p. 140.) Another positive sign: a slowdown in new claims for unemployment insurance. Although the average number of new claims in the month of March was the highest since late 1982, new claims were lower in the first week of April.

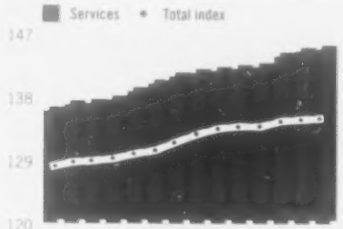
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-14.5%
Index of leading indicators Feb vs Jan	Dept of Commerce	1.1%
Trade balance 12 months ended Feb 1991	Dept of Commerce	-$96 bil
All-commodity producer price index Mar vs Feb[2]	Dept of Labor	0.9%
GNP 4th quarter vs. 3rd—annualized growth	Dept of Commerce	1.6%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	4.0%

[1] U.S.-based manufacturers, excludes imports, as of 4/1091. [2] Wholesale goods. [3] February 1991.

Index components

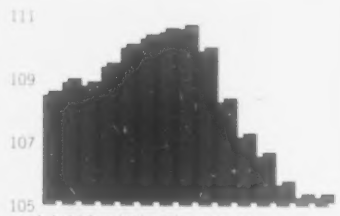
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented here.

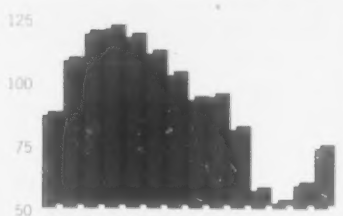


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

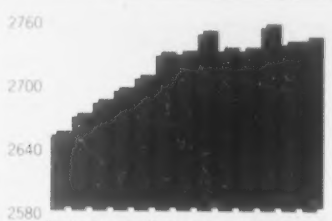
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



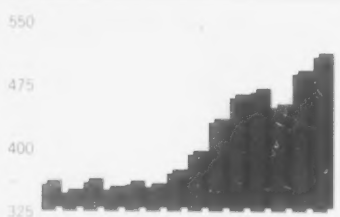
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



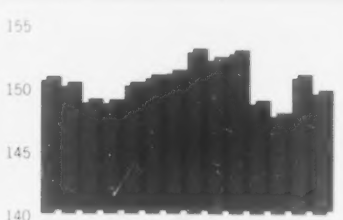
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



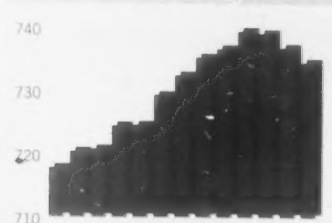
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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State and municipal services are deteriorating, even as taxes and budget deficits are rising. So the politicians are finally taking a tough attitude with public employee unions. Or are they?

Collision course

By James Cook

New York City hospital workers saying "no" to cutbacks, givebacks and wage freezes last month.

NEW YORKERS, who over the years had grown accustomed to Governor Mario Cuomo's pandering to public sector employees, were no doubt surprised during this year's budget follies to hear the governor getting tough: The elimination of up to 18,000 state workers, he said, would be necessary to close the state's $6.4 billion deficit. Cuomo even proposed taking away an $800 annual bonus he had given schoolteachers five years ago.

The unions were outraged, of course, and appealed to their friends in the media. The *New York Times* and other area newspapers swarmed with deftly planted stories warning that staff cuts would close the children's petting zoo in Central Park, cut back services to handicapped children and eliminate violin lessons in Harlem public schools. The same media had little to say about featherbedding and payroll-padding.

East of Albany, Connecticut's new governor, perennial friend of labor Lowell Weicker Jr., was also taking a tough line. Within weeks of moving into the governor's mansion in Hartford, Weicker matter-of-factly announced the impending purge of 3,500 state workers. But by mid-April he had persuaded the unions to make concessions in return for reduced job cuts, and won the unions' support for his overall budget.

The vibrations emanating from New York and Connecticut may well be the first tremors of a seismic political confrontation that most people would have deemed unthinkable only a few years ago. Liberal politicians are finally facing the reality that the powerful public service unions are a principal culprit behind swollen public payrolls and deteriorating public services.

Across the country, the number of workers on state payrolls has grown twice as fast as the population at large from 1980 to 1989. The growth rate was 4 times as fast in Illinois, 6 in Massachusetts, 7 in Connecticut and 14 in New York. Nationwide, the number of people on state and local payrolls has risen 55% in the past 20 years, to 15.2 million. Yet services—education, police, sanitation—have gone downhill almost everywhere. The violin lessons Harlem children will lose are not at the top of most people's educational priorities, but why should spending restraints cut into genuine services like these rather than into supervisory bloat? That's the choice the politicians must ultimately confront—between the needs of the public and the demands of the public sector unions.

But isn't the American labor movement dying? Overall union membership is down roughly one-third from its 1975 peak, and labor unions now represent only 16% of the work force, versus a peak of 35% in 1954. But this decline is concentrated in the industrial unions and masks impressive national gains by unions of public employees *(see chart, pp. 82-83)*.

These aren't the same unions that used to get all the national media attention—the Teamsters, the Auto Workers, the Mine Workers. They don't represent the traditional blue-collar workers—hog butchers, toolmakers, stackers of wheat, truck drivers, steelworkers.

These days the labor movement is dominated by unions like the American Federation of State, County & Municipal Employees, the American Federation of Teachers, the Service Employees International and the National Education Association: unions that represent public service workers like teachers, firefighters, transit workers, sanitation workers and clerical workers.

All told, these public service unions have nearly 5 million members, most of them working for—or at least paid by—the taxpayer. These

public sector unions have added 1.2 million new members to their ranks over the past decade, for a gain of over 30%. Roughly 37% of all government employees, federal as well as state and local, now belong to labor unions, as compared with 12% in the private sector. By the year 2000, according to Conference Board labor economist Audrey Freedman, such public sector unions could account for 60% to 70% of all U.S. trade union members.

This is the place to look when seeking answers to the current hot question: Why are state and local deficits mushrooming while the garbage piles up, the streets become less safe and the kids can't read properly?

Nearly 70% of the U.S.' 38 largest labor unions lost members in the Eighties, but nearly a dozen added members in significant numbers, and most of these belonged in the public sector.

Where the private sector struggled during the 1980s to become more efficient, learning to do more with fewer people, state and local bureaucracies went in the other direction: doing less with more people. Inflation has almost nothing to do with the problem. Between 1982 and 1988, for example, the employment cost index for the private sector rose 29%, while the index for state and local government workers climbed 39%. Take the taxpayer-supported State University of New York, nearly all of whose employees are union members. According to a 1990 Arthur Andersen study, salaries have risen 50% since 1983, versus a 29% gain in the New York Consumer Price Index.

In a way this is a relatively new problem. Labor's move into public services is only 30 years old. It was kicked off in 1962 by President John F. Kennedy with an executive order that for the first time mandated the right of federal employees to join unions. Thereafter, all but 11 states afforded similar if qualified recognition to state and municipal employee unions, and the rush was under way.

The organizing fever began spreading out of the cities and into the boondocks. A lot of professional associations—police, firefighters, nurses, educators—converted themselves into bargaining agencies, and union membership in the government sector virtually exploded. The American Federation of Teachers went from 59,000 members in 1960 to 750,000 in 1990 and the National Education Association from 714,000 to 2 million. The State, County & Municipal Employees went from 185,000 to 1.25 million, the Service Employees from 260,000 to 925,000.

In their negotiations with public sector administrators, the organizers encountered nothing like the resistance they were used to in the private sector. "In the public sector, bargaining is much more political," says the Conference Board's Freedman. "There's no competition, no countervailing force, as there is in private industry. Industry has to compete with other producers, and government does not."

But while they were free from the constraints suffered by industrial unions, the public service unions had in their bag all the weapons unions traditionally employed to gain their ends. Albert Shanker, now head of the American Federation of Teachers, went to jail twice for demonstrating that whatever the law said, you could not deny the right to strike to employees who insisted on striking anyway. When Shanker pulled 5,000 New York City public school teachers out during his first strike in 1962, what was Mayor Robert Wagner to do—hire replacements? There weren't enough qualified teachers available as it was. Result: The teachers got $32 million added to their contract, while New

Sources: AFL-CIO; Bureau of National Affairs Directory of U.S. Labor Organizations; union data: Leo Troy, Rutgers University (Teamsters percent change number)

Yorkers got an additional drain on their tax revenues. Wagner is long gone, but the tax drain stayed and grew.

The public might have swallowed all this had the schools done their job properly, but clearly they have not. Even though teachers' wages have been climbing, as Albert Shanker never hesitates to point out, public school teachers are now drawn from the lower ranks of college graduates because of the relatively low pay and the perceived lower status of the job.

The New York experience rippled across the country. "Once we negotiated our first contract," Shanker recalls, "teachers elsewhere started saying, 'Well, if it's legal in New York, why can't we do it?' Our success suggests to me that many more workers in private industry would unionize if employers were neutral."

Public school teachers, once thought to be immune to union organization, are now one of the most highly unionized parts of the work force. Today over 80% of the U.S.' 2.5 million public school teachers are enrolled in one union or the other. Teachers now account for nearly a third of unionized government workers and over 10% of all unionized workers in the U.S.

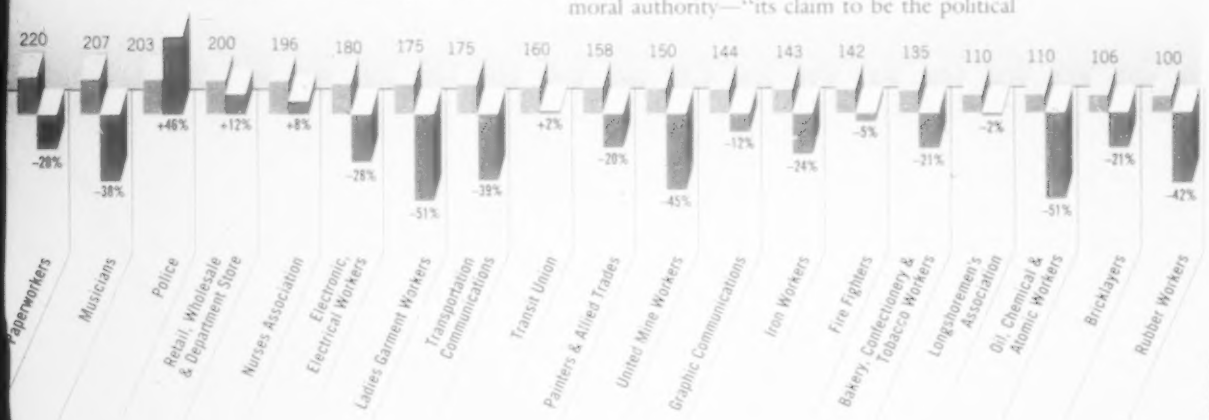
The teachers made some of the sharpest gains in the labor movement. Average salaries almost doubled in the 1980s, versus a 70% increase in the private sector.

And the unions got the teachers more than higher wages. Says National Education Association President Keith Geiger: "When we began getting decent salaries, we got more men into teaching, more women who were the sole breadwinners in their families and more people who weren't satisfied being told what to do and wanted to be part of the decision making." They wanted, among other things, to shape the curriculum, set the admission qualifications for the profession and gain an economic status commensurate with their intellectual pretensions.

Albert Shanker, American Federation of Teachers head. **He helped make teachers one of the most highly unionized labor groups.**

Not that public service employees didn't have plenty of legitimate complaints when the unionization process started. Grievances were rife throughout the public sector. Hospital workers were notoriously ill paid, for example, as were public bus drivers. And women, who make up a large proportion of public sector workers, on average earn only 60% of what men do.

To organize the public sector, the unions first targeted the underprivileged workers—the overworked and the underpaid, the people who emptied bedpans, pushed food carts, cleaned offices, dumped trash. After decades of decadence and corruption, the labor movement found in the public sector an opportunity to reassert what Peter Drucker once called its moral authority—"its claim to be the political



National Education Association head Keith Geiger at a first-grade class in Arlington, Va.

Teachers' wages almost doubled in the 1980s, versus a 70% rise for the private sector.

conscience of a modern secular society."

But the unions did not stop there. Once the more skilled public servants saw what the unions could do, they began joining up. Local 1199 of New York City's 100,000-member Drug, Hospital & Health Care Employees Union started out organizing drugstores and moved on into hospitals and health care *(see box, opposite)*. The Service Employees started out in building services—janitors, elevator operators—and moved on into both public and health care sectors. So did unions like the Food & Commercial Workers and the Operating Engineers.

Now that more than 80% of the nation's public school teachers are organized, the American Federation of Teachers is spreading its net to include state and municipal employees. Its competitor, the National Education Association, is going after the nonteaching employees of the public school system—the bus drivers, the cooks, the custodians. The National Education Association's Keith Geiger estimates there are around 2.5 million nonteaching public school workers, few of them organized by anyone.

Gerald McEntee's union, the 1.25-million-member State, County & Municipal Employees, is going after the nation's private and nonprofit hospital and health care workers. "Nine million of them, the biggest reservoir of untouched, unorganized workers in America," says McEntee. "We're spending half our $70 million budget organizing the unorganized workers. It's the right thing to do, and it's the right thing for us to do institutionally. If we don't grow, we're going to go down."

If fair wages were the only issue, the public would have scant cause to complain. The real problem is that the unions do not stop there. As McEntee makes clear, his concerns are not with the efficiency and effectiveness of the public institutions. That's for the taxpayer to worry about—but the taxpayer, unlike the consumer of other goods and services, cannot take his business elsewhere.

Thus the unions have moved from demanding better wages to getting control of the workplace itself. Under these circumstances, supervisory staffs grow and proliferate, while the number of people teaching, patrolling or nursing stays stagnant or actually declines. In the last two decades, for instance, the ratio of students to staff members in the nation's elementary and secondary schools has dropped from around 13 to nearly 9.

"We have struck a delicate balance," the National Education Association's Geiger says, "between bargaining for salaries, members' rights and working conditions, and being on the leading edge of educational reform and improving education for the youngsters." High-sounding words, but somewhat hollow, given the U.S.' discouraging test scores and widespread functional illiteracy.

Despite the increasing dominance of the teachers' unions and the concomitant decline in educational performance over the last 30 years, the unions belligerently deny that there is any sort of causal relationship. Teachers are articulate people and, not surprisingly, their union leaders have articulate responses to this kind of argument. "I would never challenge a doctor on how he should run his or her profession," Keith Geiger says, criticizing his critics. "But anybody with a third-grade education is an expert on education. The U.S. doesn't have an education problem. It has a societal problem, of which education is a big part." The trouble with that argument is the teachers keep demanding more money for education to solve a problem whose solution they say lies elsewhere.

Geiger argues that the teachers should be given greater authority to decide how money committed to education is spent. And this is the issue that divides unions and school boards from coast to coast. And with good reason.

Because putting the teachers in charge of the educational system may be akin to putting the hens in charge of the henhouse. The hens inevitably begin complaining about the lights that drive them to lay eggs all night long, begin agitating for more comfortable nests and less crowded working conditions. Soon the hens or their spokeshens make pointed comparisons with conditions in the turkey, dairy and beef

industries. The result is likely to be a much more comfortable life for the hens, but a decisive drop in egg production. In the end, putting the hens in control may be even worse than installing the proverbial fox.

Do you think that analogy is preposterous? Then look at New York City's public school custodians. Organized by the Operating Engineers, the city's 1,000 or so custodians are in effect both government employees and independent contractors who provide maintenance services for the schools. They're given a budget from the city and, within the limits of the contract, dispose of it pretty much as they see fit. They put themselves well—$57,000 a year on average—46% more than the average New York City teacher. On top of this they hire their own maintenance workers—often wives, relatives and friends—and maintain the schools on terms negotiated with the Board of Education. Under these stipulations, the custodians must sweep the floors every other day, mop the cafeteria once a week and scrub the floors three times a year. The results, critics say, are predictable. The schools are often run for the benefit of the custodians rather than the children or the community, and many if not most schools are less well tended than the average henhouse.

Common cause

DENNIS RIVERA, head of New York's 100,000-member Drug, Hospital & Health Care Employees Local 1199, is just about the hottest thing in the labor movement these days. He's slight, dapper, with raven hair, a pencil moustache and a bovish manner. Rivera, 40, has turned 1199 into one of the most exemplary and ambitious outfits in the movement. Both the State, County & Municipal and Service Employees International would like 1199 to join them. It's not only 1199's members they covet; the two unions also want Rivera's talents to advance their own ambitions in health care.

Rivera has the political touch a labor leader needs. He long ago formed common cause with Jesse Jackson, helped get David Dinkins elected mayor, and counts New York's Cardinal O'Connor among his supporters.

When Rivera threatened to strike New York's voluntary hospitals in 1989, O'Connor came in on his side. "The Cardinal said, 'Dennis, I have told my negotiators to be as generous as possible and to give you as much as they can.'" With the Catholic hospitals on board, Rivera splintered the rest of the industry and won a wage increase most hospitals had argued they couldn't afford.

Rivera helped finance a third of the increase by suspending payments into the union's pension fund. He risked little with this. The fund has $2.3 billion in assets but paid out only about $45 million in 1990. It just keeps growing. "I have from 10% to 14% turnover in my membership every year," he says, "people who pay into the fund but don't stick around."

Rivera also promised to lobby the state for more aid and won an extra $1.5 billion, thus ratcheting up New York's budget deficit several additional notches. "We can assist the hospitals in getting funding," he says. "The more a hospital depends on government financing, the better our relationship. The more financially independent they are, the less they need us."

Rivera's organizing skills dazzle his opponents. He relates how at one hospital he got a list of every employee and had his leaders visit each one's home to pick up the cards that would authorize an election. They wound up with 250 out of 400. He has just hired ten new organizers, and dreams of expanding upstate, where he thinks there are 225,000 workers unorganized.

Rivera is the son of an Irish-American businessman, Dennis Hickey, who went to Puerto Rico after World War II, set up a nonunion textile plant in the outback and married a local woman. Son Dennis got into politics at the University of Puerto Rico, ran demonstrations against the Vietnam War and wound up a labor organizer—first in Puerto Rico, then in New York. He took his mother's maiden name. That hasn't hurt his standing with his constituency's many Spanish speakers. With touches like this and keeping his salary low—$42,000 last year—Rivera shows his members he hasn't lost the common touch. He blames the decline of the industrial unions on their leaders' failure to stay in touch with their members. "When you make $296,000 a year, as one leader does in this city, you have more in common with the employers than you have with the members." —J.C.

Dennis Rivera of New York's Local 1199
His union still has a passion for organizing the exploited and underprivileged.

State, County & Municipal Employees head Gerald McEntee **He wants a voice for the unions in setting fiscal priorities.**

So, why didn't elected officials, who are supposed to represent the taxpayers, put a stop to escalating union demands? In large part because when they do and the unions strike, the taxpayers don't support the politicians. Last fall New York City's chief labor negotiator, alarmed at the prospect of a general strike, worked out a magnanimous 5.5% wage increase with the city's powerful 85,000-member teachers' union. This with the city on the verge of bankruptcy.

In January, with a $3 billion budget gap in prospect through fiscal 1992, New York Mayor David Dinkins announced he would have to lay off some 16,600 city workers, including 3,500 teachers. The media then reported that the teachers understood the city's cash squeeze and, in return for no layoffs in the current school year, had agreed to help out by deferring roughly 1.5 points of the wage increase for five years.

In fact, the teachers gave up less than they seemed to. The forgone wages were deferred, not eliminated, and the teachers will be paid 9% interest on a portion of the amount deferred. They also got a vacation in February, better retirement provisions and various nonwage benefits they'd been seeking for some time.

That's New York City. But the same situation prevails in most school boards. And the teachers' demands and tactics differ little from those of the firefighters, sanitation workers, police, hospital workers and millions of other organized public employees.

Is there no limit? We are in the process of finding out.

You can't get money from a stone, or from a bankrupt city. But the unions are trying. While an airline can be driven out of business by its unions, as Eastern was, a city must stumble along, even at the price of progressive decay of infrastructure and services. Let future politicians and voters worry about the bridges and tunnels. The unions understand this and can be counted on to exploit any opportunity that opens for them. What money there is will go to them.

Until recently, such problems may have seemed limited to big cities like New York. But as the recession has reduced public revenues everywhere in the country, government after government is beginning to discover how greatly the public sector unions threaten the fiscal integrity of state and local government.

Thus prodded by voters who threaten to toss them from office if taxes rise any more, the politicians are finally talking tough—and the unions are talking tough right back. "You go right up the East Coast," complains State, County & Municipal Employees' head Gerry McEntee. "All Democrats, all people we support politically, and what's happening? Cutbacks, givebacks, layoffs and no wage increases. We didn't have anything to do with the management of the state or the financial underpinnings, and we're the first people to be cut when there's any kind of pinch."

McEntee would like to change that. "We want to get involved in what happens to our pension money, how they work out the bond ratings. We want to get involved in making decisions in terms of tax base, in terms of priorities. We want to play a larger role in the formation of public policy, the formation of national policy, as it affects our people."

Analyze that statement: McEntee is demanding direct political power for the public service unions. It was this sort of drive for power by the Labour Party and the unions that then controlled it that brought the U.K. to the verge of economic and social bankruptcy. Twelve years of counterrevolution under Tory governments have only partly undone the damage.

A confrontation looms here. It is between the taxpayer, the ordinary citizen, and some very powerful unions. Liberal though he is, New York's Mario Cuomo has recognized this and has tilted, however tentatively, toward the public's interest. It remains to be seen whether he will stand up to union fury.

Higher taxes will not solve this problem; voters are telling their officials that taxes are already too high. Nor is cutting wages the solution. Rather the governments must stop being patsies for further unreasonable wage demands. Most important of all, the local governments must regain control of the functions that they have so blithely ceded to public service unions in the last 30 years and put a stop to the wasteful and inefficient work practices that are destroying public services in the U.S. ■

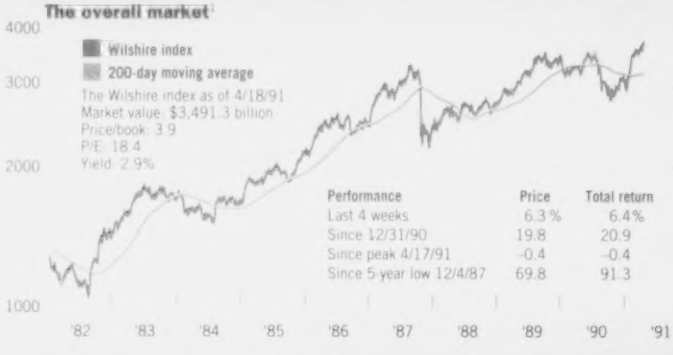
THE FORBES WALL STREET REVIEW

BY ERIC S. HARDY

An important barrier—albeit only a psychological one—was broken when the Dow industrials finally closed above 3000 in mid April. This index has nevertheless been underperforming the broad market for some time. The Wilshire index of 6,000 stocks, for instance, is up 20% so far this year, versus only 14% for the Dow.

Although the market has been bullish, a disappointing earnings report can still cause significant and swift declines in prices for individual issues. Apple Computer shares lost more than 10 points—15% of their value—during the latest two weeks, on relatively weak earnings. But companies in mature industries may be less susceptible to nasty surprises if their earnings don't meet expectations. Equipment manufacturers Parker Hannifin Corp. and Trinova Corp., for instance, recently reported lower than anticipated earnings, but their stock prices rallied on the news. Merrill Lynch's Alexander Blanton, who follows the heavy equipment manufacturing companies, is looking for a sharp upturn for this industry as soon as this summer. "The prospects for capital spending haven't been this good in the last ten years," he says. This is in large part because of the necessity—worldwide—of rebuilding infrastructure. Thus, Blanton thinks companies like Caterpillar and Deere are undervalued.

The overall market[1]



Performance	Price	Total return
Last 4 weeks	6.3%	6.4%
Since 12/31/90	19.8	20.9
Since peak 4/17/91	-0.4	-0.4
Since 5-year low 12/4/87	69.8	91.3

The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Cisco Systems	32¼	26%	37	8,705	0.8
Advanced Micro Devices	13⅞	25	NM	18,415	1.8
20th Century Industries	49¼	23	13	824	0.9
Hasbro	29½	22	19	2,187	1.4
Cypress Semiconductor	23⅜	22	27	2,785	1.2

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Seagate Technology	13⅝	-29%	9	21,484	1.6
Bank of Boston	8¾	-18	NM	8,366	1.4
FHP	23¼	-17	21	1,970	0.6
Topps	14¾	-17	13	7,931	3.7
Dell Computer	25¼	-15	19	6,297	1.1

Closeup on the market

Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,715.8	2.2%
Wilshire index 6,000 stocks, equal weighted	24.4	3.5
Dow Jones industrials 30 stocks, divisor adjusted price average	2,999.3	2.6
S&P 500 Capitalization weighted cross section, major stocks	388.5	2.3
NYSE Capitalization weighted, all listed common stocks	212.3	2.2
Amex Capitalization weighted total return: stocks, warrants	373.4	2.3
Nasdaq Capitalization weighted, all issues except warrants	506.6	1.8
Amex international market index Capitalization weighted, 50 largest ADRs	324.0	0.6
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	880.70	0.1%
Institutional[5] Approximately 200 stocks with high institutional ownership	125.98	2.8
Individual[5] Approximately 200 stocks with low institutional ownership	104.39	0.3
Russell 2000 index 2000 small market value stocks, capitalization weighted	177.58	1.7
Gold[6] (composite quote of 6 major dealers)	$357.80	-0.3
Yen[6] (per $U.S.)	137.75	1.3
Commodity index[6] (CRB futures index, 1967=100)	218.04	-1.2
Oil[6] (W. Texas Intermediate)	$21.10	5.5
T bills[6] (90 days)	5.70%	-4 basis points[7]
Broker loan rate[6]	7.50%	-50 basis points[7]

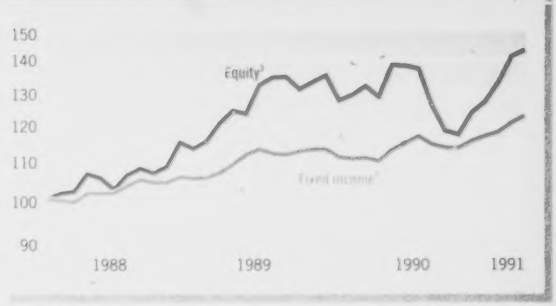
Note: All data for periods ending 4/18/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since the index was created. Stocks listed above have market capitalization of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over recent 2 week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 4/19/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one hundredth of a percentage point. NM: Not meaningful.

MUTUAL FUND REVIEW

BY TIKA RUSSO McCARTHY

Sales

Performance



Data from the Investment Company Institute show that net sales (new purchases and reinvested dividends, less redemptions) of equity funds collapsed last August. However, by September fund investors were coming back into the market. Since bottoming last October, FORBES' performance indexes of the largest equity and fixed income funds have improved steadily.

The latest market cycle (one down period, one up period) for equity funds runs from August 1987 to March 1991. During this cycle the S&P 500 had an average annualized return of 7.4% versus 5.5% for the Forbes index of the 25 largest equity funds. Some of the best results came from smaller, sector funds. Fidelity Select-Health Care, with $373 million in assets, dedicated to the red-hot medical sector, posted an average annual total return over the cycle of 22%. Bergstrom Capital, which has 30% of its portfolio in health care, had a 20.8% average return.

Our list of the worst-performing funds is dominated by gold and precious metals funds. According to James Nevler of the Commodity Research Bureau, investors worried about inflation can now buy Swiss francs and hard-currency-based securities, which pay interest and dividends. Devoid of psychological support, gold prices, Nevler concludes, are determined by supply and demand.

Junk bond funds recently staged a modest rally, but redemptions have overwhelmed funds such as Dean Witter High Yield Securities. In a little over a year its assets dropped from $1.1 billion to $361 million.

The best performers

Fund	Forbes rating up	Forbes rating down	Cycle[6] return	Assets[7] ($mil)
Equity funds[5]				
Fidelity Select-Health Care	A+	D	22.0%	$373
Bergstrom Capital	A	A	20.8	73
20th Century Ultra Investors	A+	F	19.9	458
Berger One Hundred	A	D	18.9	15
Putnam Health Sciences Trust	A	D	18.7	376
Janus Fund	B	A	18.7	1,156
Fidelity Growth	A	D	17.0	602
Fidelity Select-Utilities	D	A	16.5	167
Fidelity Contrafund	A	D	16.2	332
Hartwell Emerging Growth	A+	F	15.2	25
Bond funds				
Lincoln National Income	C	A+	16.6	68
Transamerica Income Shares	A+	D	16.0	119
FPA New Income Fund	C	B	15.9	38
Mutual of Omaha Intrest Shares	A	C	15.0	95
Federated GNMA Trust	B	C	14.6	1,279

The worst performers

Fund	Forbes rating up	Forbes rating down	Cycle[6] return	Assets[7] ($mil)
Equity funds[5]				
Strategic Investments Fund	F	F	-28.0%	$38
ASA Limited	D	D	-21.8	552
United Services-Gold Shares	D	D	-20.5	263
Engex	C	F	-15.9	12
United Services-Global Resources	D	D	-15.8	28
Fidelity Select-Precious Metals & Mins	D	C	-15.7	189
Bull & Bear Gold Investors	D	D	-15.6	35
Keystone Precious Metals	D	D	-15.3	153
Van Eck International Investors	D	D	-13.4	611
Lexington Goldfund	D	B	-12.8	106
Bond funds				
Dean Witter High Yield Securities	F	B	-8.4	312
Keystone Custodian B-4	D	A	-4.0	532
Aim High Yield Securities	F	A	-2.4	33
National Bond Fund	D	D	-2.3	286
Venture Income Plus	F	A+	-1.5	20

Note: To be rated, equity funds must be in existence since 6/30/83; bond funds, 4/30/83. [1]Monthly net sales of open-end funds. Net sales are purchases by investors, including reinvested dividends, less redemptions. [2]Includes tax-free and foreign bond funds. Source: Investment Co. Institute. [3]Index of total return for the 25 largest stock funds in 1986. [4]Index of total return for the 25 largest taxable bond funds in 1986. [5]Includes balanced funds. [6]Total return (annualized), for one market cycle: equity, 8/31/87 to 3/31/91; bonds, 8/31/86 to 3/31/91. [7]As of 12/31/90.